CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

February 13, 2007

H.R. 976
Small Business Tax Relief Act

As ordered reported by the House Committee on Ways and Means on February 12, 2007

SUMMARY

H.R. 976 would make several changes to tax law. Some would reduce revenue and others would raise revenue. The legislation would reduce revenue by extending existing tax incentives for certain businesses and making other changes to business taxation. It would increase revenue by denying low tax rates on capital gains and dividends to certain dependents and making other tax-related changes.

The Joint Committee on Taxation (JCT) estimates that enacting H.R. 976 would decrease revenues by $162 million in 2007 and increase revenues by $225 million over the 2007-2012 period and by $45 million over the 2007-2017 period. The Congressional Budget Office estimates that H.R. 976 would not affect direct spending.

JCT has determined that the bill contains one private-sector mandate as defined in the Unfunded Mandates Reform Act (UMRA): The denial of lower capital gains and dividend rate for dependents under the age of 24 who do not provide more than one-half of their own support with earned income. JCT has also determined that the bill contains no intergovernmental mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the bill over the 2007-2017 period is shown in the following table.

	By Fiscal Year, in Millions of Dollars												
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2007-2012	2007-2017
CHANGES IN REVENUES													
Total Changes in Revenues	-162	-422	-352	-3,113	-1,749	6,020	-2,725	973	765	502	303	225	45

NOTE: Numbers may not add to totals due to rounding.

BASIS OF ESTIMATE

JCT assumes that the bill will be enacted by April 1, 2007.

Revenues

The legislation would reduce revenues through multiple tax relief provisions related to small businesses, and it would also raise revenues by denying lower tax rates on capital gains and dividends for certain dependents and making other changes. All in all, CBO and JCT estimate that the bill would increase revenues by $225 million over the 2007-2012 period and by $45 million over the 2007-2017 period.

Revenue Reductions. Several provisions would reduce revenues over the 2007-2012 and 2007-2017 periods. First, the bill would extend the work opportunity tax credit. Currently, employers who hire workers from among certain targeted groups may claim a work opportunity tax credit. This bill would extend (through December 31, 2008) and expand certain criteria for eligibility for the credit. JCT estimates that this provision would reduce revenues by $641 million over the 2007-2012 period and by $695 million over the 2007-2017 period.

Second, the bill would increase the amounts of investment between 2007 and 2010 that qualify for immediate deductibility (“expensing”) under section 179 of the Internal Revenue Code. In addition, it would extend for one year through 2010 the expansion in the types of investments that qualify. JCT estimates that these changes would reduce revenues by $3.5 billion over the 2007-2012 period and by $68 million over the 2007-2017 period.

Third, the bill would allow individual and corporate taxpayers to claim both the work opportunity tax credit and the FICA tip credit against the alternative minimum tax. This would reduce revenues by $431 million over the 2007-2012 period and by $572 million over the 2007-2017 period, JCT estimates.

Revenue Increases. Two other provisions would increase revenues over the budget period. First, the bill would not allow certain dependents under the age of 24 (those who do not provide more than half of their own support with earned income) to use the lowest capital gains and dividend tax rates. JCT estimates that this would increase revenues by $525 million over the 2007-2012 period and by $874 million over the 2007-2017 period.

Second, the bill would increase the amount of time before a suspension of interest and penalties begins from 18 months to 22 months if the Internal Revenue Service has not notified taxpayers of a tax deficiency. JCT estimates that this would increase revenues by $249 million over the 2007-2012 period and by $506 million over the 2007-2017 period.

Other Revenue Effects. One provision would shift revenues between 2012 and 2013. For corporations with at least $1 billion in assets in 2012, the bill would increase the portion of corporate estimated tax payments due in July through September of that year. This change would increase revenues by $4.0 billion in 2012 and decrease revenues by $4.0 billion in 2013.

Additionally, a provision in section 4 of the bill would have no effect on revenues relative to current law. The provision would change the calculation of the business income tax credit for employer-paid Social Security and Medicare taxes on tip income of certain restaurant employees. The credit is currently based on the amount of tips earned that boost an employee's combined tip and cash hourly income above a threshold amount equal to the minimum wage specified in statute, currently $5.15 per hour. As a result, increases in the minimum wage above $5.15 per hour automatically result in reductions in tax credits, because the threshold for the credit would automatically increase. H.R. 976 would set the threshold amount at $5.15 per hour. Because the bill would maintain the threshold at the current law level, it would have no effect on revenues relative to current law, regardless of whether the minimum wage were increased above $5.15 per hour.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

JCT has determined that the bill contains one private-sector mandate as defined in the Unfunded Mandates Reform Act (UMRA): The denial of lower capital gains and dividend rate for dependents under the age of 24 who do not provide more than one-half of their own support with earned income. JCT estimates that the cost of this mandate would not exceed the threshold established in UMRA ($131 million in 2007, adjusted for inflation in subsequent years) in any of the first five years it would be in effect. JCT has also determined that the bill contains no intergovernmental mandates as defined in UMRA.

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